ar 21055
Q 32933

Integral Systems

5000 Philadelphia Way
Suite A
Lanham, Maryland 20706-4417
(301) 731-4233
Fax #(301) 731-9806

13

I
92-2270

INTEGRAL SYSTEMS, INC.

10Q

FOR QUARTER ENDED JUNE 30, 1992

A

Microfilmed
By
Q-Data
Corporation
St. Petersburg, FL

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

__X__ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 1992 or

_____ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 33-22395

Integral Systems, Inc.
(Exact name of registrant as specified in its charter)

Maryland	52-1267968
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5000 Philadelphia Way, Suite A, Lanham, MD	20706
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (301) 731-4233

(Former name, address and fiscal year, if changed since last report)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

As of June 30, 1992 the aggregate market value of the Common Stock of the Registrant (based upon the average bid and ask prices of the Common Stock as reported by the market makers) held by non-affiliates of the Registrant was $6,375,263.

Registrant had 917,570 shares of common stock outstanding as of June 30, 1992.

B

INTEGRAL SYSTEMS, INC.

TABLE OF CONTENTS

		Page No.
Part I Financial Information:		
Item 1.	Financial Statements	
	Balance Sheets - June 30, 1992, September 30, 1991	1
	Statements of Operations Three Months Ended June 30, 1992 and June 30, 1991, and Nine Months Ended June 30, 1992 and June 30, 1991	3
	Statement of Cash Flow Nine Months Ended June 30, 1992 and June 30, 1991	4
	Statement of Shareholders' Equity Nine Months Ended June 30, 1992	5
	Notes to Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operation	7
Part II Other Information:		
Item 6.	Exhibits and Reports on Form 8-K	9

C

Item 1. Financial Statements

INTEGRAL SYSTEMS, INC.
BALANCE SHEETS
JUNE 30, 1992 & SEPTEMBER 30, 1991

ASSETS

	June 30, 1992	Sept. 30, 1991
Current assets:		
Cash	$2,326,095	$2,144,870
Investments	780,000	480,000
Accounts receivable (Notes 2 & 3)	1,773,324	2,450,335
Prepaid expenses	9,576	5,380
Income tax receivable	61,308	94,693
Total current assets	4,950,303	5,175,278
Fixed assets:		
Electronic equipment	411,368	380,386
Furniture and fixtures	69,567	75,082
Leasehold improvements	12,696	12,696
Software systems	37,997	27,680
	531,628	495,844
Less: accumulated depreciation and amortization	(291,386)	(299,910)
Total fixed assets	240,242	195,934
Other assets:		
Software development costs	322,335	206,639
Deposits	1,044	10,438
Total other assets	323,379	217,077
Total assets	$5,513,924	$5,588,289

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.
BALANCE SHEETS
JUNE 30, 1992 & SEPTEMBER 30, 1991

LIABILITIES

	June 30, 1992	Sept. 30, 1991
Current liabilities:		
Accounts payable - trade	$ 97,000	$ 477,979
Accrued expenses	600,130	505,537
Billings in excess of cost	346,018	84,733
Payroll taxes payable	74,166	179,105
Retirement plan payable	125,690	138,258
Income taxes payable	-	82,640
Total current liabilities	1,243,004	1,468,252
Long term liabilities:		
Deferred taxes	-	58,454
Total liabilities	1,243,004	1,526,706
Stockholders' equity:		
Common stock, $.01 par value, 2,000,000 shares authorized, and 917,570 and 914,370 shares issued and outstanding at June 30, 1992 and September 30, 1991 respectively	9,176	9,144
Additional paid-in capital	494,909	478,591
Retained earnings	3,766,835	3,573,848
Total stockholders' equity	4,270,920	4,061,583
Total liabilities and stockholders' equity	$5,513,924	$5,588,289

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.

STATEMENT OF OPERATIONS

	Nine Months Ended June 30,		Three Months Ended June 30,	
	1992	1991	1992	1991
Contract revenue	$6,636,179	$8,156,840	$2,067,889	$2,714,910
Cost of revenue:				
Direct labor	2,554,702	2,486,460	834,766	829,492
Direct equipment/ subcontracts	1,262,189	2,331,571	387,087	772,941
Travel & other direct costs	280,294	107,122	59,029	29,273
Overhead expenses	1,797,855	1,656,855	566,310	522,762
Total cost of revenue	5,895,040	6,582,008	1,847,192	2,154,468
Gross profit	741,139	1,574,832	220,697	560,442
Operating expenses:				
General & admin. exp.	478,453	545,820	229,736	216,447
Total operating expenses	478,453	545,820	229,736	216,447
Income (loss) from oper.	262,686	1,029,012	(9,039)	343,995
Other income (expense):				
Interest income	73,587	98,579	26,338	42,936
Interest expense	(10,751)	(36)	(10,751)	-
Other income (expense)	(16,135)	(15,839)	8,593	(4,098)
Total other income (exp.)	46,701	82,704	24,180	38,838
Income before taxes	309,387	1,111,716	15,141	382,833
Provision for income taxes	116,400	429,300	5,100	147,800
Net income	$ 192,987	$ 682,416	$ 10,041	$ 235,033
Weighted average number of common shares outstanding during the period	915,503	913,170	916,070	914,370
Net income per share	$.21	$.75	$.01	$.26

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.

STATEMENT OF CASH FLOW

	For the Nine Months Ended June 30, 1992	1991
Cash flows from operating activities:		
Net income	$ 192,987	$ 682,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,203	88,051
Increase (decrease) in income taxes payable	(107,709)	(191,027)
Net (increase) decrease in receivables, prepaid expenses, accrued expenses, accounts payable, and other current liabilities	530,207	748,090
Total adjustments	536,701	645,114
Net cash provided (used) by operations	729,688	1,327,530
Cash flows from investing activities:		
Acquisition of fixed assets	(130,580)	(115,276)
Increase in other assets	(134,233)	(155,235)
Acquisition of Treasury Bills	(300,000)	-
Net cash used in investing activities	(564,813)	(270,511)
Cash flows from financing activities:		
Proceeds (retirement of) from issuance of short term debt	-	(3,222)
Proceeds from issuance of common stock	16,350	12,750
Net cash provided by (used in) financing activities	16,350	9,528
Net increase (decrease) in cash	181,225	1,066,547
Cash - beginning of year	2,144,870	1,714,262
Cash - end of period	$2,326,095	$2,780,809

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED

JUNE 30, 1992

	Number of Shares	Common Stock at Stated Value	Additional Paid-in Capital	Retained Earnings	Total
Balance, September 30, 1991	914,370	$9,144	$478,591	$3,573,848	$4,061,583
Exercise of Stock Option	3,200	32	16,318	-	16,350
Net income	-	-	-	192,987	192,987
Balance, June 30, 1992	917,570	$9,176	$494,909	$3,766,835	$4,270,920

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The interim financial statements include the accounts of Integral Systems, Inc. (ISI) and, in the opinion of management, reflect all adjustments consisting only of normal recurring accruals necessary for a fair presentation of results for such periods. The financial statements, which are condensed and do not include all disclosures included in the annual financial statements, should be read in conjunction with the consolidated financial statements of the Company for the fiscal year ended September 30, 1991. The results of operations for any interim period are not necessarily indicative of results for the full year.

2. Accounts Receivable

Accounts receivable at June 30, 1992 and September 30, 1991 consist of the following:

	June 30, 1992	September 30, 1991
Billed	$ 754,508	$ 976,251
Unbilled	1,018,816	1,474,084
	$1,773,324	$2,450,335

The Company uses the direct write-off method for bad debts.

The Company's accounts receivable consist of amounts due on prime contracts with the U.S. Government and subcontracts with various private organizations that have contracts with the U.S. Government. Unbilled accounts receivable consist principally of amounts that are billed in the month following the incurrence of cost. All unbilled receivables are expected to be billed and collected within one year.

3. Line-of-Credit

The Company has a line of credit agreement with a local bank for $1,000,000. Borrowing under the line of credit bears interest at the bank's lending rate plus one-quarter of one percentage point per annum. Any accrued interest is payable monthly. At June 30, 1992 and September 30, 1991 the Company had no outstanding balance under the line of credit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTHS ENDED JUNE 30, 1992 TO THE NINE MONTHS ENDED JUNE 30, 1991

The components of the Company's income statement as a percentage of revenue are depicted in the following table for the nine months ended June 30, 1992 and 1991:

	1992 (000's omitted)	% of Revenue	1991 (000's omitted)	% of Revenue
Revenue	$6,636	100.0	$8,157	100.0
Expenses				
Cost of revenue	5,895	88.8	6,582	80.7
General & admin.	479	7.2	546	6.7
Other	(47)	(0.7)	(83)	(1.0)
Income taxes	116	1.8	429	5.3
Total expenses	6,443	97.1	7,474	91.7
Net income	$ 193	2.9	$ 683	8.3

Revenue decreased by approximately $1.5 million between the nine months ended June 30, 1992 and the nine months ended June 30, 1991, principally because the Company delivered approximately $1.1 million less equipment and subcontracts to its customer base during the current period.

Cost of revenue as a percentage of revenue for the fiscal year 1992 period was 88.8% compared to 80.7% for the comparable period in fiscal year 1991. The increase resulted principally as the Company invested direct cost dollars of approximately $590,000 in the production and promotion of new software products which it has begun to market. These costs were in addition to capitalized software development costs of approximately $147,000 incurred during fiscal year 1992 to date. It is important to note that the Company has begun to change the focus of its business towards the development and marketing of proprietary technological software products that it believes are viable in Governmental, commercial and international sectors. Although no assurances can be provided, the Company is hopeful of generating significant revenues from these products within the next six to twelve months. In fact the Company believes that at least one major award for several of its new products is imminent.

G&A expense, while lower in dollars spent was higher as a percentage of revenue in fiscal year 1992 vs. fiscal year 1991, principally due to the lower revenue base in the current year.

Finally, net income was adversely affected during the current year by the recognition of a loss of approximately $240,000 in the third quarter on a particular fixed price contract. This particular contract is now complete and accordingly, the Company believes the loss is of a non-recurring nature.

COMPARISON OF THE QUARTER ENDED JUNE 30, 1992 TO THE QUARTER ENDED JUNE 30, 1991

The components of the Company's income statement as a percentage of revenue are depicted in the following table for the quarter ended June 30, 1992 and 1991:

	1992 (000's omitted)	% of Revenue	1991 (000's omitted)	% of Revenue
Revenue	$2,068	100.0	$2,715	100.0
Expenses				
Cost of revenue	1,847	89.3	2,154	79.3
General & admin.	230	11.1	217	8.0
Other	(24)	(1.2)	(39)	(1.4)
Income taxes	5	.3	148	5.5
Total expenses	2,058	99.5	2,480	91.4
Net income	$ 10	.5	$ 235	8.6

Revenue decreased by approximately $650,000 between the quarter ended June 30, 1992 and the quarter ended June 30, 1991, principally because the Company delivered approximately $390,000 less equipment and subcontracts to its customer base during the current quarter.

Cost of revenue as a percentage of revenue for the third quarter of fiscal year 1992 was 89.3% compared to 79.3% for the comparable period in fiscal year 1991. The increase resulted principally as the Company invested significant direct cost dollars in the production and promotion of new software products which it has begun to market. These costs were in addition to capitalized software development costs of approximately $45,000 incurred during the third quarter. It is important to note that the Company has begun to change the focus of its business towards the development and marketing of proprietary technological software products that it believes are viable in Governmental, commercial and international sectors. Although no assurances can be provided, the Company is hopeful of generating significant revenues from these products within the next six to twelve months.

During the third quarter of fiscal year 1992 G&A expense increased slightly in real dollar terms over the comparable period in fiscal year 1991 due to multiple bid and proposal efforts during the current quarter.

Finally, but perhaps most significantly current year performance was adversely affected by a one-time loss of approximately $240,000 recognized on a particular fixed price contract during the quarter.

Liquidity and Capital Resources

ISI has been profitable since its inception in 1982 and has been able to generate adequate cash flow from operations to fund its operating and capital expenses. To supplement operating cash flows, ISI has access to a line of credit facility of $1,000,000 which is currently unused. (See Note 3 of the Notes to Financial Statements).

In July, 1988 the Company raised approximately $400,000 (net) through the sale of 110,000 common shares in its initial public offering.

As a result of its current cash reserves, its unused line of credit facility and its continued projected profitable earnings, ISI believes it will have adequate cash to meet its obligations for the foreseeable future.

In terms of capital purchases, historically ISI has funded such items through operating cash flow or capital lease. The Company currently has no plans for major capital purchases for the remainder of fiscal year 1992, although as stated above, the Company plans to continue to invest development dollars in its new software products.

Part II. Other Information

6. Exhibits and Reports an Form 8-K

a. Exhibits

none

b. Form 8-K

On July 6, 1992 the Company filed a Form 8-k announcing certain management and board of director changes.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRAL SYSTEMS, INC.
(Registrant)

Date: August 6, 1992

By: /s/
Steven R. Chamberlain
Chairman of the Board